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RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0290
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RUEHKO/AMEMBASSY TOKYO PRIORITY 1305
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S E C R E T SECTION 01 OF 05 ASHGABAT 000457

SIPDIS

SIPDIS

FOR E UNDER SECRETARY REUBEN JEFFERY
STATE FOR SCA/CEN, EEB
PLEASE PASS TO USTDA DAN STEIN
USEU FOR AMBASSADOR GRAY
ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR HUEPER

E.O. 12958: DECL: 04/11/2018
TAGS: [PREL](#) [PGOV](#) [EINV](#) [EPET](#) [TX](#)
SUBJECT: TURKMENISTAN: THE FIELD OF POTENTIAL FOREIGN OIL
COMPANIES GETS MORE CROWDED

REF: A. ASHGABAT 0109
[B](#). 07 ASHGABAT 1172
[C](#). ASHGABAT 0254
[D](#). ASHGABAT 0186

Classified By: CDA Richard E. Hoagland: 1.4(B), (D).

[1](#)1. (C) SUMMARY: With two exceptions, Turkmenistan's record of dealing with foreign petroleum companies remains sharply bifurcated between the second-tier companies present in Turkmenistan since former President Niyazov's time and the others that are standing in line to complete new agreements now that Niyazov is dead. Of the companies that have been present for some time -- Dragon Oil, Petronas, and Burren (now ENI) -- all except Burren/ENI are thriving. There is one new party, Canadian company Buried Hill, which has received a contract for Caspian Block III (a disputed area) in a murky deal suggestive of political intrigue and corruption. There remain a large number of other companies, including U.S. majors like Chevron, ConocoPhillips, ExxonMobil, and BP, that are interested in working in Turkmenistan. However, progress is slow. Chevron, which submitted a bid March 11 to work onshore, continues to be frustrated by its inability so far to get the government to the negotiating table. At the same time, ConocoPhillips/Lukoil, which has been in negotiations since mid-2007, has yet to close a deal. Other U.S. companies by all accounts are even further behind. Meanwhile, non-U.S. firms such as Total, Shell, and TNK-BP, are circling around, waiting for the situation to change. END SUMMARY.

BURIED HILL ENTERS THE PICTURE WITH SERDAR DEAL

[1](#)2. (S) Canadian petroleum company Buried Hill signed a

contract in December 2007 to work Caspian Block III -- a key area disputed by Turkmenistan and Azerbaijan. The deal, however, was not announced until after a February 12 meeting between the company's CEO, Roger Haines, board member and former Canadian Prime Minister Jean Chretien, and Turkmenistan's President Berdimuhamedov (Ref C). The details are enveloped in secrecy. Most here, pointing both to the murky, opportunistic pasts of Haines and Chretien, and Buried Hill's total lack of experience and technological know-how in deep-water drilling required for the block III fields, are speculating that substantial bribery was involved. Turkmenistan's signing the Buried Hill agreement in December 2007 and announcing it just as negotiations with Azerbaijan over the disputed maritime border areas were moving forward may have been intended as a negotiating strategy with Azerbaijan.

13. (C) Executive Director of the State Agency for Management and Use of Hydrocarbon Resources Byrammurat Muradov told the Charge that the deal with Buried Hill is a "contract," rather than a traditional production sharing agreement (PSA). He insisted the contract is structured so Buried Hill cannot resell its rights to another company but only return them to Turkmenistan. Turkmenistan chose Buried Hill "because no one trusts them" and therefore, they "will be more loyal." To date, Buried Hill claims to have already carried out seismic imaging, and says it is looking for a rig so that it can begin drilling before the end of 2008. Whatever the true motives might have been, the deal shows Turkmenistan's preference for working with small companies from the Niyazov era and its general discomfort -- and insecurity -- dealing with the majors.

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BURREN/ENI CONTINUES TO FEEL GOVERNMENT WRATH

14. (SBU) When news broke December 3, 2007, that Italian petroleum giant Eni had signed a contract to take over the PSA holding of the second-tier UK hydrocarbon company, Burren Energy, everybody agreed that Burren, which received \$3.6 billion in an all-cash deal, had made a killing. However, neither side had bothered to consult with the Government of Turkmenistan, but rather, presented the government with a fait accompli. Although the deal has since gone through, the government has not cooperated, denying ENI officials visas to enter Turkmenistan. Consequently, employees of the former Burren have had to continue to run the company. Government officials remain raw about the Burren/Eni deal. This may be contributing to the government's unwillingness to trust other foreign companies -- a problem that is affecting many of the firms now seeking to enter Turkmenistan's hydrocarbon production sector.

PETRONAS: PLANNING FOR EXPANDED PRODUCTION?

15. (SBU) Petronas, a Malaysian company working Caspian Block I, continues to move forward with its plans to begin capturing the unexpectedly large amounts of associated gas that it discovered. However, there are new indications that gas volumes may be higher than previously reported. While the company's outgoing country manager told EmbOff February 23 that the company is still planning on producing only 10 billion cubic meters (bcm) of gas per year, he also stated that the company is planning to build a 48-inch pipeline -- with the potential to transport 20 bcm of gas per year -- from Block I to shore. Whether this is because Petronas is hoping to reach agreement with Buried Hill to transport gas from Buried Hill's holding in Block III to shore (a possibility which Buried Hill's country manager separately told Post he is considering), or Petronas is planning to increase its production is not yet clear. In the meantime, Petronas is also proceeding with a reportedly very thorough audit, a company requirement when the country managers change.

CNPC

16. (SBU) In July 2007, Beijing and Turkmenistan signed a major deal to construct a Turkmenistan-to-China pipeline, due to open in 2009. As part of the deal, Turkmenistan gave a PSA to CNPC to work the right bank of the Amu Darya River. Turkmenistan's president also agreed to sell China a guaranteed 30 bcm of Turkmenistani gas per year for 30 years, with any shortfalls in CNPC production to be made up with Turkmen gas from other areas. (NOTE: Estimates suggest that the CNPC PSA will cover only 13 bcm per year, requiring the remaining 17 bcm to be purchased from other sources. END NOTE.) The ground-breaking ceremony for CNPC's primary facility was held February 22. In March, Turkmenistan signed a \$600 million contract with the Gazprom-owned Stroytransgas to build the 188-km pipeline section in Turkmenistan. According to some media reports, the 1.42 meter-diameter pipe will run from the Malai gas field across the Amu Darya River to the Uzbekistan border.

WINTERSHALL/MAERSK: PREPARING A DEAL WITH CHEVRON?

17. (C) The German company Wintershall, which more than a year ago took over ownership of Maersk's PSAs to work Caspian blocks 11 and 12, is planning to carry out exploratory

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drilling sometime between late April and mid June. The holes that Maersk drilled were disappointing. Wintershall is hoping to share the results with Petronas and Irish-registered, UAE-owned Dragonoil (which has a PSA off Turkmenistan's Cheleken peninsula) to develop a better picture of the Caspian Sea and figure out whether there are any other blocks worth bidding on. But even bigger news from Wintershall's perspective is that it may be negotiating a partnership in Turkmenistan with Chevron that could be announced as early as June (Chevron's country manager has never raised this issue). According to Wintershall's talkative country manager, Wintershall would bring to the partnership PSAs for two offshore Caspian blocks, while Chevron would bring funding and tremendous onshore drilling experience.

CHEVRON: WAITING FOR NEGOTIATIONS TO START

18. (C) Chevron, which recently opened an office in Ashgabat, submitted a formal "indicative bid" on March 11 to work onshore sub-salt reserves in the Amu Darya basin in eastern Turkmenistan. (NOTE: The government still has not abandoned a policy banning any new foreign companies -- with the exception of CNPC -- from working onshore fields, but a number of our contacts believe that the government will change this policy eventually. END NOTE.) In an effort to bring the government to the negotiating table quickly, Chevron sent a team to give an April 5 presentation to hydrocarbon officials (septel). While the presentation went smoothly, State Hydrocarbon Agency Director Muradov subsequently told the Chevron country manager that he had wanted to see more information about how the company applies its integrated processes to drilling and production. He expressed concerns about Chevron's transparency, since the team had refused to leave behind some sensitive proprietary information. However, Muradov offered the company a second presentation, which will likely take place in May, and the company is working on a strategy to strengthen trust. Meanwhile, Muradov told Chevron that four other companies -- BP, Lukoil, Shell, and Total -- have also expressed interest in working in the Amu Darya basin. Although Chevron by all accounts is still ahead of its competitors, it is beginning to feel the heat of competition.

LUKOIL/CONOCOPHILLIPS: CLOSER TO A CONTRACT?

19. (C) ConocoPhillips, along with its partner Lukoil, has been negotiating a PSA for Caspian blocks 19, 20 and 21 since the middle of 2007. Muradov told U.S. officials in late February that, if ConocoPhillips was not willing to make some

compromises, the State Agency is willing to start considering bids from other companies. (NOTE: We have heard that both Rosneft and TNK-BP are interested in the blocks for which ConocoPhillips has been bidding. END NOTE.) ConocoPhillips CEO James Mulva visited Turkmenistan in February, and reportedly the two sides have since whittled down outstanding differences to one issue: arbitration.

BP AND TNK-BP: COMPETITORS IN TURKMENISTAN

¶10. (C) TNK-BP and BP are both interested in working in Turkmenistan, but they are moving separately. TNK/BP, which set up an office in Ashgabat in September 2007, is interested in eventually working onshore, but in the interim has submitted PSA proposals to work several undisclosed offshore blocks in which several other companies also are interested.

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(NOTE: This likely means that TNK-BP is bidding for blocks 19, 20 and 21, and/or blocks 22 and 23. END NOTE.) In the meantime, TNK-BP has told us that it is seeking to demonstrate to the government that it can deliver, and has submitted an offer to assist Turkmenistan with oil recovery in old fields. It also has carried out 3-D seismic imaging of the (onshore) Kotur Tepe field, located in western Turkmenistan. By contrast, BP, hindered by its work on the Azeri side of the disputed area and by its perceived reputation for running roughshod over the Azeri government, is moving even more slowly. It reportedly has held "exploratory discussions" with the Government of Turkmenistan, including in March, and is moving to establish an office in Ashgabat. However, Post is unaware whether BP has submitted any firm bids as yet.

EXXONMOBIL: EXPLORING THE OPTIONS

¶11. (C) ExxonMobil is interested in working onshore, in Turkmenistan's Murgab depression (located in the Southeast. in the Amu Darya basin). However, ExxonMobil has been warned that its decision to withdraw from Turkmenistan in the 1990's (when it was only Mobil) has left some hard feelings, and says it is going slowly to rebuild lost trust. (NOTE: Prior to 2002, Mobil had an agreement to explore the right bank of the Amu Darya River, where CNPC now has its PSA. After its merger with Exxon, the new company opted to pull out. Its departure reportedly left some in Turkmenistan, including oil professionals like Deputy Premier Tagiyev and Turkmengaz Chairman Kakayev, displeased. END NOTE.) With Chevron and others that want to work the same area now reportedly far ahead, its go-slow approach may hurt it, unless Chevron decides to withdraw its bid because the government is moving so slowly.

MIDLAND OIL: FRUSTRATED

¶12. (C) Despite initially promising talks with President Berdimuhamedov and hydrocarbon officials, Midland Oil and Gas seems not to have made any progress on its PSA bid for Caspian blocks 23, 30 and 31 (or on any of the other deals it was seeking to reach with Turkmenistan -- see Ref D). The good will that the company gained by arranging for Berdimuhamedov to ring the bell at the New York Stock Exchange in September 2007 seems to have faded a bit. Company Board Chairman Robert Murphy left Turkmenistan in late February frustrated, but reportedly is still trying to find the right levers to push to get the company's proposed deals back on line. Ever optimistic, he returned early in April and plans to stay for several weeks.

OMV

¶13. (C) The Embassy learned on April 11 that Austria's OMV has an office in Ashgabat through its Rompetrol partner and is scouting around for offshore and onshore possibilities.

¶14. (SBU) COMMENT: Although U.S. firms are still trying to

get used to Turkmenistan's unique process for negotiating development of its hydrocarbon reserves, they are not alone. In the 13 months since the State Agency's establishment, it has signed only one agreement -- the curious deal with Buried Hill. While it is clear that the State Agency lacks confidence, Post still believes that the real issues involved are officials' unfamiliarity with international hydrocarbons markets, rather than a dislike of the companies involved.

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With pressure mounting on the State Agency to demonstrate its worth (there has been some discussion that Muradov's job is in jeopardy), we believe an agreement can be reached with a Western major this year. END COMMENT.
HOAGLAND